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# Report of the Committee on Contributions

**Seventy-fourth session**
**(2-20 June 2014)**

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*Note*

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*Summary*

At its seventy-fourth session, the Committee on Contributions reviewed the methodology of the scale of assessments pursuant to rule 160 of the rules of procedure of the General Assembly and Assembly resolutions 58/1 B and 67/238.

With regard to the methodology for the scale of assessments, the Committee:

(a) Recalled and reaffirmed its recommendation that the scale should be based on the most current, comprehensive and comparable data available for gross national income;

(b) Welcomed the increasing number of Member States implementing the more recent standards under the 1993 System of National Accounts (SNA) or the 2008 SNA, and expressed support for efforts by the Statistics Division of the Department of Economic and Social Affairs of the Secretariat to enhance coordination, advocacy and implementation of SNA and supporting statistics at the national level, with a view to enabling Member States to submit national accounts data on a timely basis with the required scope, detail and quality;

(c) Recommended that the General Assembly encourage Member States to submit the required national accounts questionnaires under the 1993 SNA or the 2008 SNA on a timely basis;

(d) Recalled and reaffirmed its recommendation that market exchange rates should be used in preparing the scale, except where that would cause excessive fluctuations and distortions in the gross national income of some Member States expressed in United States dollars, in which case price-adjusted rates of exchange or other appropriate conversion rates should be applied, if so determined on a case-by-case basis;

(e) Agreed that, once chosen, there were advantages in using the same base period for as long as possible;

(f) Decided to further consider all elements of the scale methodology at its future sessions in the light of guidance from the General Assembly.

The Committee also decided to study further the questions of large scale-to-scale changes and annual recalculation in the light of guidance from the General Assembly.

With regard to multi-year payment plans, the Committee noted that no new multi-year payment plans had been submitted. The Committee recalled the successful implementation of plans by several Member States, and recommended that the General Assembly encourage those Member States in arrears under Article 19 of the Charter of the United Nations to consider submitting multi-year payment plans.

With regard to exemptions from the application of Article 19 of the Charter, the Committee recommended that the following Member States be permitted to vote in the General Assembly until the end of its sixty-ninth session: Central African Republic, Comoros, Guinea-Bissau, Sao Tome and Principe, and Somalia.

The Committee decided to hold its seventy-fifth session from 1 to 26 June 2015.

[23 June 2014]

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# Chapter I
## Attendance

1. The Committee on Contributions held its seventy-fourth session at United Nations Headquarters from 2 to 20 June 2014. The following members were present: Andrzej T. Abraszewski, Syed Yawar Ali, Fu Daopeng, Jean Pierre Diawara, Gordon Eckersley, Edward H. Faris, Bernardo Greiver, Ihor V. Humennyi, Kunal Khatri, Ali A. Kurer, Nikolay Lozinskiy, Pedro Luis Pedroso Cuesta, Gönke Roscher, Henrique da Silveira Sardinha Pinto, Ugo Sessi, Shigeki Sumi, Josiel Motumisi Tawana and Dae-jong Yoo.

2. The Committee welcomed the new members and thanked the seven outgoing members, Joseph Acakpo-Satchivi, Susan M. McLurg, Juan Mbomio Ndong Mangue, Thomas Schlesinger, Thomas David Smith, Xudong Sun and Kazuo Watanabe, for their hard work and years of service in the Committee.

3. The Committee elected Mr. Greiver as Chair and Mr. Eckersley as Vice-Chair.

# Chapter II
## Terms of reference

4. The Committee on Contributions conducted its work on the basis of its general mandate, as contained in rule 160 of the rules of procedure of the General Assembly; the original terms of reference of the Committee contained in chapter IX, section 2, paragraphs 13 and 14, of the report of the Preparatory Commission (PC/20) and in the report of the Fifth Committee (A/44), adopted during the first part of the first session of the Assembly on 13 February 1946 (resolution 14 (I) A, para. 3); and the mandates contained in Assembly resolutions 46/221 B, 48/223 C, 53/36 D, 54/237 C and D, 55/5 B and D, 57/4 B, 58/1 A and B, 59/1 A and B, 60/237, 61/2, 61/237, 64/248 and 67/238 and Assembly decision 68/548.

5. The Committee had before it the summary records of the Fifth Committee at the sixty-eighth session of the General Assembly relating to agenda item 138, entitled "Scale of assessments for the apportionment of the expenses of the United Nations" (A/C.5/68/SR.3, 4 and 26) and the verbatim records of the 32nd and 72nd plenary meetings of the Assembly at its sixty-eighth session (A/68/PV.32 and 72), and had available the relevant reports of the Fifth Committee to the Assembly (A/68/504 and Add.1).

# Chapter III

## Review of the methodology for the preparation of the scale of assessments

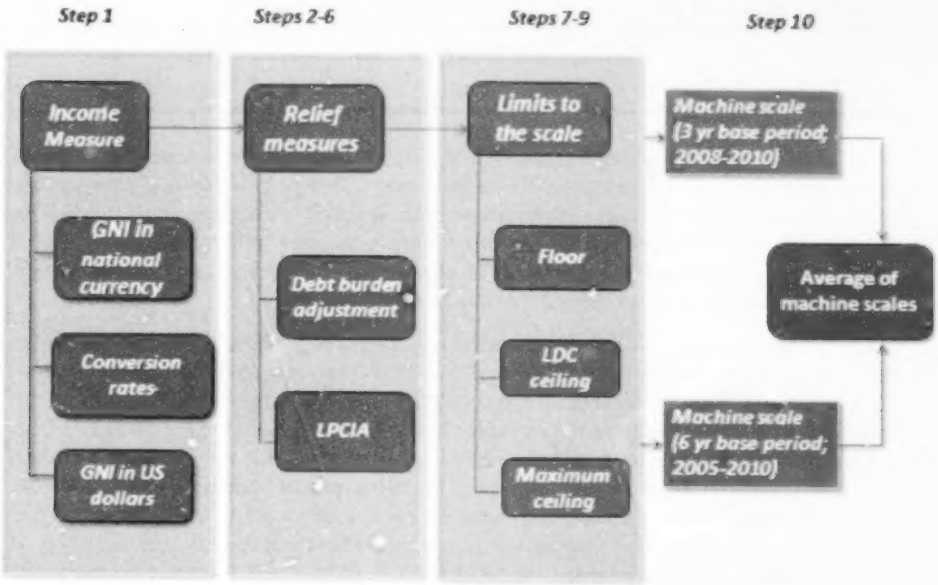
6. The Committee on Contributions recalled that in adopting the latest scale of assessments in its resolution 67/238, the General Assembly had noted that the application of the current methodology reflected changes in the relative economic situations of the States Members of the United Nations. The Assembly had also noted that changes in Member States' shares in world gross national income (GNI) resulted in changes in their relative capacity to pay, which should be more accurately reflected in the scale of assessments. The Assembly had recognized that the current methodology could be enhanced, bearing in mind the principle of capacity to pay, and that there was a need to study the methodology in depth and in an effective and expeditious manner, taking into account the views expressed by Member States. The Assembly had requested the Committee, in accordance with its mandate and the rules of procedure of the Assembly, to review and make recommendations on the elements of the methodology of the scale of assessments in order to reflect the capacity of Member States to pay, and to report thereon to the Assembly by the main part of its seventieth session.

7. The Committee also recalled that at its previous session, it had conducted a review of the methodology for the preparation of the scale of assessments in accordance with its mandate and the rules of procedure of the General Assembly and had made recommendations and reported thereon to the Assembly at the main part of its sixty-eighth session. Having considered the summary records of the Fifth Committee at the sixty-eighth session of the Assembly relating to agenda item 138, the Committee noted that the Assembly had not provided it with any specific guidance on the methodology for the preparation of the scale of assessments.

### A. Elements of the methodology for the preparation of the scale of assessments

8. The Committee recalled that the same methodology used in preparing the scale of assessments for the past four periods had been used in preparing the scale of assessments for the period 2013-2015. An overview of the methodology used in preparing the current scale is presented in the figure below. A more detailed description of the methodology is contained in annex I to the present report, including a step-by-step explanation of the process.

**Overview of the methodology for preparing the scale of assessments**




*Abbreviations*: GNI, gross national income; LPCIA, low per capita income adjustment; LDC, least developed country.

9. On the basis of the general mandate given to it under rule 160 of the rules of procedure of the General Assembly, as well as the requests contained in Assembly resolutions 58/1 B and 67/238, the Committee carried out a review of the elements of the current methodology.

## 1. Elements for making comparative estimates of national income

### (a) Income measure

10. The income measure is a first approximation of capacity to pay. The Committee recalled that the Ad Hoc Intergovernmental Working Group on the Implementation of the Principle of Capacity to Pay had agreed that national disposable income is theoretically the most appropriate measure of capacity to pay (see A/49/897). National disposable income represents the total income available to residents of a country, namely, national income plus net current transfers receivable from the rest of the world (such as remittance flows).

11. The Committee reviewed updated information on the availability of data on gross national disposable income (GNDI) for its possible use as an income measure. The Committee noted some improvement, with GNDI data being available for 54 countries as at 31 December 2013, an increase from the 49 countries reported at the seventy-third session of the Committee. Nevertheless, such data were still not provided by the majority of Member States, and the release of data was very slow. Owing to the lower reliability and availability of data on this income measure, the Committee considered that it was still not feasible to use it for the scale of assessments.

**Availability of gross national disposable income data as at December 2013**

| *Countries providing GNDI data* | *2007* | *2008* | *2009* | *2010* | *2011* | *2012* |
|---|---|---|---|---|---|---|
| Number | 121 | 118 | 117 | 111 | 98 | 54 |
| Contribution in the 2013-2015 scale | 93.1 | 93.0 | 93.0 | 92.7 | 88.4 | 40.7 |

12. The Committee recalled that it had previously reaffirmed that the scale of assessments should be based on the most current, comprehensive and comparable data available for GNI. The Committee also recalled paragraph 7 of resolution 67/238, in which the General Assembly noted that changes in Member States' shares in world gross national income result in changes in relative capacity to pay, which should be more accurately reflected in the scale of assessments.

13. The Committee reviewed the availability and comparability of GNI data under the different standards of the System of National Accounts (SNA). The Committee recommended that the General Assembly encourage Member States to submit the required national accounts questionnaires under the 1993 SNA or the 2008 SNA on a timely basis. In the past, concerns had been raised about the comparability of data between countries reporting according to the more recent standards (2008 SNA or 1993 SNA) and those still reporting according to the 1968 SNA. In its review of the updated information, the Committee noted a further increase in the number of Member States that had adopted the 1993 SNA, and thus a diminished potential for incomparability of data. A total of 166 Member States were reporting under the more recent standards, of which 155 reported according to the 1993 SNA and 11 according to the 2008 SNA. Several countries were also in the process of finalizing plans for the implementation of the 2008 SNA.

14. The Committee welcomed the continued increase in the number of Member States reporting under the more recent standards. However, the Committee also emphasized the importance of the remaining 27 Member States adopting and reporting on a timely basis under the 1993 SNA or the 2008 SNA. While GNI data compiled under the 1993 and the 2008 SNA would generally be comparable, data compiled under the 1968 SNA did not have the same degree of comparability because of a number of major conceptual changes introduced in the more recent standards (see annex II). The Committee also noted that the GNI data reported under the 1993 and the 2008 SNA constituted a more accurate reflection of the full productive output of an economy than those reported under the 1968 SNA.

**Member States reporting national accounts statistics under the 1993 or the 2008 System of National Accounts**

| *Years* | *Number* | *Per cent total 2012 gross national income* | *Per cent total 2012 population* |
|---|---|---|---|
| 2009 | 134 | 94.7 | 88.1 |
| 2010 | 139 | 94.7 | 88.3 |
| 2011 | 150 | 95.9 | 90.8 |
| 2012 | 156 | 98.6 | 93.2 |
| 2013 | 166 | 98.7 | 94.9 |

15. The Committee also analysed the reliability of statistical data available with a two-year time lag. Most national statistical organizations revise their estimates, providing provisional estimates first, followed by revised estimates and then final estimates. Some countries are able to publish only provisional estimates of national accounts statistics with a two-year time lag. In its latest review of the extent of average annual revisions of the estimates of national gross domestic product (GDP) over a period of one to four years after initial publication, the Committee noted that provisional estimates of national accounts aggregates continued to be subject to substantial revision in subsequent years. In addition, the extent of revision to the more recent data could at times be significant for some countries.

**Extent of annual revisions of nominal gross domestic product since initial release**

| | *Time after initial publication* | | | |
|---|---|---|---|---|
| *Data* | *One year* | *Two years* | *Three years* | *Four years* |
| Extent of average revision (percentage) | 5.1 | 3.9 | 3.8 | 3.1 |

16. In reviewing the available data, the Committee noted that there were 75 countries for which complete information on all the years in the base period was not available owing to the time lag in submitting the data. The Committee stressed the importance of the timely submission of the required national accounts questionnaires by Member States in order to minimize the use of estimates.

17. **On the basis of its review, the Committee:**

(a) **Recalled and reaffirmed its recommendation that the scale of assessments should be based on the most current, comprehensive and comparable data available for GNI;**

(b) **Welcomed the increasing number of Member States implementing the 1993 SNA or the 2008 SNA, and expressed support for efforts by the Statistics Division to enhance coordination, advocacy and implementation of SNA and supporting statistics at the national level, with a view to enabling Member States to submit national accounts data on a timely basis with the required scope, detail and quality;**

(c) **Recommended that the General Assembly encourage Member States to submit the required national accounts questionnaires under the 1993 SNA or the 2008 SNA on a timely basis.**

### (b) Conversion rates

18. A conversion factor is needed to convert the GNI data received from Member States in their national currencies to a common monetary unit. In accordance with General Assembly resolutions, a conversion factor based on the market exchange rates (MERs) was used for the scale methodology, except in cases where that would cause excessive fluctuations and distortions in the income of some Member States, in which case price-adjusted rates of exchange or other appropriate conversion factors were used.

19. The Committee recalled that it had developed systematic criteria to help to identify market exchange rates that cause excessive fluctuation and/or distortion in

GNI for possible replacement with price-adjusted rates of exchange or other appropriate conversion rates. The stepwise application of the systematic criteria, shown in annex III, may be summarized as follows (as applied for the 2013-2015 scale of assessments):

(a) The first step of the systematic criteria is to identify the Member States whose exchange rates have been fixed for a long period of time and whose per capita GNI level in United States dollars, using such exchange rates, seems not to represent economic reality, for example, when their per capita GNI levels in United States dollars are not comparable to those of neighbouring countries at the same level of economic development. Countries with a coefficient of variation in market exchange rates of less than 3 per cent over the applicable period (for example, 2005-2010) are examined. The market exchange rates of these countries were also compared to the United Nations operational rates and to conversion rates employed by the International Monetary Fund (IMF);

(b) The second step is to identify Member States with a growth factor of their per capita GNI, in United States dollars in nominal terms (at current prices) using market exchange rates, greater than 1.5 times the growth factor of the world per capita GNI or smaller than 0.67 times the growth factor of the world per capita GNI between the two immediate reference periods of three years each, for example, 2005-2007 and 2008-2010;

(c) The third step is to identify Member States with a market exchange rate valuation index greater than 1.2 or less than 0.8 times the average valuation index across all Member States during the same period.

20. The Committee recalled that it had previously concluded that no single criterion would automatically solve all problems satisfactorily and that any criteria would be used solely as a point of reference to guide the Committee in identifying Member States whose market exchange rates should be reviewed. The Committee also noted that, in addition to the systematic criteria, there were other indicators and tools which theoretically could be used to identify countries for review, and that ultimately decisions would need to be taken on the basis of a detailed case-by-case review.

21. The Committee reviewed the systematic criteria, including the impact of application to available updated statistical data. The Committee also considered the impact of modifications to the systematic criteria. One approach would involve changing the thresholds of its two parameters, namely, the per capita GNI growth factor and the market exchange rate valuation index. Another approach would be to use a statistical measure to reduce the impact of market exchange rate fluctuations in the cross-country comparison of national income. Some alternative ways to smooth fluctuations in market exchange rates include:

(a) A moving average[1] of market exchange rates over a reference period of more than one year;

(b) An average of market exchange rates over a reference period of more than one year adjusted for the difference between the rates of inflation in the

[1] An n year moving average of the market exchange rate of a country for year t is the average of its MERs for the years t, t-1, ....., t-(n-1).

country and the world economy (international inflation). The inflation rate is measured by the change in the GDP deflator.

22. The Committee decided to further study the systematic criteria at future sessions, including whether there was any need for modification.

23. The Committee received information on the latest developments of the work of the 2011 International Comparison Programme carried out by the World Bank on the concept of purchasing power parity. The Committee reviewed information released in April 2014 summarizing the results of this programme.

24. The Committee acknowledged limitations in the use of purchasing power parity, noting in particular that it reflected the capacity to consume rather than to pay, that data were not available for all countries and that it relied on estimates and extrapolations of survey information rather than current and verifiable data. Members nonetheless expressed the view that developments in the programme should continue to be monitored by the Committee.

25. **The Committee recalled and reaffirmed its recommendation that conversion rates based on market exchange rates should be used for the scale of assessments, except in cases where that would cause excessive fluctuations and distortions in GNI of some Member States expressed in United States dollars, in which case price-adjusted rates of exchange or other appropriate conversion rates should be applied, if so determined on a case-by-case basis.**

**(c) Base period**

26. For the scale methodology, GNI data expressed in United States dollars is averaged over a designated base period, using the most recent data available at the time that the scale is considered by the Committee. In the past, the base period used in preparing the scale of assessments varied from 1 to 10 years. The scales for the periods 2001-2003 to 2013-2015 have used the average of the two machine scales using base periods of three and six years.

27. The Committee recalled that the current approach had not been based on any technical recommendation from the Committee, but instead had been the result of a compromise reached by the General Assembly between those arguing for shorter and those arguing for longer base periods. It gave greater weight to the most recent three-year period, since the related data were included in both machine scales.

28. The Committee noted that a statistical base period was an essential element of the scale. Once chosen, any change in the statistical period would have an impact for individual Member States. The advantages and disadvantages of both shorter and longer base periods had been discussed extensively by the Committee at its previous sessions. Some members of the Committee have favoured longer base periods as a way of ensuring stability and smoothing out sharp year-to-year fluctuations in the income measure of Member States, while others have favoured shorter base periods to better reflect the current capacity of Member States to pay. The Committee also noted that there was no clear rationale for changing the current combined approach based on both three-year and six-year periods.

29. The Committee revisited both the issue of the averaging of the two base periods and the way in which the calculation is carried out. In basing the scale on average statistical base periods of six and three years, two scales are calculated

separately for each of the six-year and three-year base periods and are then averaged to form a final scale of assessments. An alternative approach could consist of first averaging the GNI data for three-year and six-year periods and then running a single machine scale on the average, instead of running two separate machine scales for each period and averaging their results. Some members expressed the view that running a single machine scale would be simpler, and therefore supported this option in order to simplify the working of the current methodology. Other members expressed the view that two scales had to be calculated and the results averaged, since the General Assembly had decided to use two separate base periods. The Committee, noting that using the alternative approach of running one single machine scale on the base periods resulted in slight differences for most Member States but had a notable impact for a limited number of Member States, particularly those crossing the low per capita income threshold, decided to study the issue further.

30. **The Committee agreed that, once chosen, there were advantages in using the same base period for as long as possible.**

### 2. Relief measures

#### (a) Debt-burden adjustment

31. The debt-burden adjustment has been part of the scale methodology since 1986. It was introduced in response to a debt crisis at that time in which a number of developing countries were unable to refinance sovereign debt that had been issued to external creditors. As a consequence some countries were confronted by crises of solvency that had a severe impact on their capacity to pay. The debt-burden adjustment was therefore introduced to provide relief to such Member States by reflecting the impact of the repayment of their external debt on their capacity to pay. Given that interest on external debt is already accounted for as part of GNI, the debt-burden adjustment in the current methodology is calculated by deducting the principal payments on external debt from GNI in United States dollars. Percentage shares are recalculated on the basis of debt-adjusted GNI, and therefore the impact of the debt-burden adjustment is indirectly distributed to all Member States. The Committee noted that the total redistribution of points at the debt-burden adjustment stage for the 2013-2015 scale was 0.546 percentage points. Currently, 130 members benefit from the debt-burden adjustment.

32. The Committee recalled that when the debt-burden adjustment was introduced, public external debt was preferred over total external debt for two main reasons. First, not all private external debt is included in total external debt. Second, private debt does not constitute the same burden as public debt. However, total external debt was used rather than public debt because of greater availability of data and the lack of distinction between public and private debt in data then available. In recent years, the availability of data from the World Bank on public external debt and publicly guaranteed debt has improved substantially. In 1985 such data were available for 37 countries, while in December 2013 they were available for 124 Member States.

33. The Committee also recalled that limitations in the availability of data on principal payments on debt at the time the adjustment was introduced led it to base the adjustment on a proportion of the total external debt stock of the Member States concerned. For that purpose, it was assumed that external debt was repaid over a

period of eight years, so that the adjustment to the GNI data was 12.5 per cent of total external debt stock per year. This became known as the debt-stock approach. Alternatively, the adjustment could be based on data on actual repayments of debt principal, which became known as the debt-flow approach. With regard to the availability of information required for the application of the debt-stock and debt-flow approaches, the Committee noted that for the 2007-2012 period, the Word Bank International Debt Statistics database covered the debt stock of 124 Member States. The countries covered are developing countries that are members of and borrowers from the World Bank and have per capita GNI below the World Bank threshold for high-income per capita GNI, which was $12,616 in 2013. The Committee reviewed information indicating that the actual average repayment period of external debt for 2007-2012 was approximately nine years, compared with the eight-year period assumed for the debt-stock approach.

34. Consequently, two issues that have been raised in relation to the current methodology of the debt-burden adjustment can be addressed using the currently available data, namely: (a) whether to use total external debt data or to only use public and publicly guaranteed external debt data; and (b) whether to base the adjustment on the debt-stock or the debt-flow approach.

35. Some members considered that the adjustment was an essential part of the methodology in determining the capacity of many Member States to pay, and that it should therefore be retained in its present form. They argued that the debt-burden adjustment was necessary for measuring the real capacity of Member States to pay, bearing in mind that there were still a number of heavily indebted Member States. They also expressed the view that since the GNI calculation takes into account private and public sources of income, total debt should be retained in the debt-burden adjustment calculation. They considered that the adjustment should continue to be part of the methodology, reflecting an important factor in the capacity of Member States to pay. Those members also expressed the view that the use of total debt stock was necessary, as total external debt reflected capacity to pay, and that private debt represented an important component of the total debt stock, influencing the overall capacity of Member States to pay. They also noted that the debt-stock adjustment was of better service to Member States most in need of relief, those that over time have not been able to make repayments and therefore have not been able to reduce their external debt. These members underlined that the recent international financial crisis had had a negative impact on the development prospects of many developing countries, therefore further affecting their capacity to pay and worsening their debt situation.

36. Other members pointed out that the economic situation had changed significantly since the introduction of the adjustment in 1986. In particular, the recent international financial crisis had had a profound impact on the debt situation of a number of countries, including many developed countries, that did not currently benefit from the debt-burden adjustment. On the premise that debt presents a burden with respect to the capacity to pay, some argued that the debt-burden adjustment should be applied to all Member States. The Statistics Division noted, however, that the available data on the external debt of Member States were not all comparable. These members pointed out that the extreme conditions which had been the rationale for the introduction of the debt-burden adjustment in 1986 were not currently applicable to all 124 countries, although they would apply to some of the countries not included in the World Bank data set.

37. Other members pointed out that the debt-burden adjustment concept was based on developmental concerns and therefore should continue to be limited to countries below the World Bank threshold for high-income per capita GNI.

38. Furthermore, some members expressed support for refinements to the debt-burden adjustment on the basis of technical merit and the improved availability of data. They noted that data availability constraints were no longer a technical obstacle to using public rather than total external debt data, nor to switching from the debt-stock to the debt-flow approach. Those members viewed such changes as technical enhancements to the current methodology. In their view, the debt-flow approach takes into account actual transactions of debt repayment, and is therefore a better representation of the economic reality. If debt repayment is to be considered a burden, then that would support taking actual repayment into account. Conceptually, some members also disputed that all debt is a burden, as assumed by the current methodology. Those members argued that debt provides a useful tool for productive investment by Governments and that all Member States develop fiscal plans on the basis of a sustainable level of debt, whereas the current methodology assumes that Member States seek to reduce their stock of debt down to zero. Those members argued that the impact debt has on a Member State's capacity to pay is more accurately reflected by the market interest rate on debt refinance. This is already taken into account in GNI measures. In exceptional circumstances, markets may refuse to refinance debt, leading to a solvency crisis, such that targeted relief is justifiable. Those members also noted that the debt-burden adjustment takes into account external debt only on a gross basis. In their view, external debt should be taken into account on a net basis, as any amount lent by one country to another should be treated as a resource, much in the same way as any amount borrowed by it is treated as a burden. The Statistics Division indicated that net debt data were not currently available.

39. The Committee noted that the unavailability of data was no longer a factor in determining whether to base the debt-burden adjustment on (a) total external debt or public external debt; and (b) the debt-stock approach or the debt-flow approach. Data were now available on public external debt and on the actual repayment period.

40. **The Committee decided to further consider the question of the debt-burden adjustment at future sessions in the light of guidance from the General Assembly.**

**(b) Low per capita income adjustment**

41. The Committee noted that the low per capita income adjustment had been an important element of the scale methodology since the earliest days of the United Nations and that it had been used in the preparation of the first scale of assessments. Per capita income can be defined as GNI divided by the population of a country. The Committee recalled that its terms of reference, inter alia, called for comparative income per head of population to be taken into account to prevent anomalous assessments resulting from the use of comparative estimates of national income. The Committee agreed that a low per capita income adjustment continued to be needed in the scale methodology.

42. The adjustment currently has two parameters: a threshold level of per capita GNI to determine which countries would benefit and a gradient to set the size of the

adjustment. Since the adoption of the 1995-1997 scale, the threshold, which had previously been a fixed dollar amount, has been the average per capita GNI for the membership. The gradient had grown over the years, from 40 per cent in 1948 to 85 per cent in 1983. Since the calculation of the scale for the 1998-2000 period, the gradient has been fixed at 80 per cent.

43. The total redistribution of points at the low per capita income adjustment stage for the 2013-2015 scale was 9.739 percentage points. The size of the redistribution has been increasing over time.

44. Some members of the Committee expressed the view that the low per capita adjustment was working well as part of the overall methodology and should be retained as currently formulated. Those members noted that the per capita GNI of many countries had increased over time and that such countries received lower adjustments. Further, the number of beneficiary countries had slightly decreased in recent years and those countries that had crossed the threshold no longer received any adjustment and now paid for the benefits of those below the threshold. They expressed their support for the continued use of the average per capita GNI for the membership in establishing the threshold. Those members also pointed to the significant changes in the last scale of assessments, which included increases for many developing countries. They emphasized that changes to the low per capita income adjustment would need to be based on reliable data and should be a technical enhancement to the methodology as a whole, not a change solely designed to lessen the absorption of the burden on those above the threshold.

45. Some members argued that the adjustment was intended to provide targeted relief for countries with low per capita income, but through its design, it was instead providing generalized and increasing relief to a much larger number of Member States. Those members therefore supported changing the threshold to address inconsistencies or problems associated with the current methodology.

46. The Committee considered various options for revising the low per capita income adjustment, some of which had previously been considered and reported to the General Assembly, while some were new or variations of previous proposals. The Committee considered the following:

(a) The low per capita income adjustment threshold could be based on the world average per capita debt-adjusted GNI instead of the unadjusted per capita GNI used in the current methodology. Given the lack of comparable external debt data for all countries, an alternative approach would be to use unadjusted per capita GNI for both Member States and the threshold calculation. This would address the asymmetry of comparing the debt-adjusted GNI of Member States against an adjustment threshold based on the unadjusted GNI;

(b) The threshold could be redefined based on the World Bank definition of low- or lower-middle-income countries. This could address the inconsistency with the classification used for the debt-burden adjustment, which was based on the World Bank Debtor Reporting System;

(c) The threshold could be adjusted in line with the average GNI per capita of the absorbers (those above the threshold) only, rather than the world average. This would address inconsistency in the current methodology, which could arise when, as the situation of low-income countries improved, they would push up the threshold, delaying the point at which they graduated above it;

(d) The discontinuity caused when crossing the threshold could be addressed by a number of different proposals, such as implementing a neutral zone around the threshold or changing the manner of distribution of the adjustment (currently absorbed only by those countries above the threshold). These proposals are further discussed in section B.1 below.

47. Some members expressed support for these approaches, as they would appropriately address inconsistencies in the existing methodology and redress the adverse effect on absorbing countries, while others expressed disagreement, noting that some of the suggested approaches would lead to further instability and unpredictability in the scale of assessments.

48. The Committee agreed that an alternative approach for establishing the threshold could be an inflation-adjusted threshold. The low per capita income adjustment threshold would be fixed in real terms instead of it being set at the current average world per capita income for the scale base period. For example, the average per capita GNI of a specific reference year could be used, but it could be updated according to the world inflation rate in order to keep its real value constant over time. In that way, a country's individual position with respect to the low per capita income adjustment threshold would be rendered independent of the performance of other countries, and both average per capita GNI and the low per capita income adjustment threshold would be adjusted for inflation.

49. **The Committee decided to further consider the low per capita income adjustment in the light of guidance from the General Assembly.**

### 3. Limits to the scale

#### (a) Floor

50. The Committee recalled that the minimum assessment rate, or floor, has been an element of the scale methodology from the outset. The setting of the floor is a subjective decision to be taken by the General Assembly. Since 1998, the floor had been reduced from 0.01 per cent to 0.001 per cent. In the scale of assessments for the 2013-2015 period, 30 Member States, of which 17 were included in the list of the least developed countries, were raised to the floor.

51. Member States at the floor (0.001 per cent) were assessed $25,520 for the regular budget for 2014. In reviewing this element in the past, the Committee considered the floor rate of 0.001 per cent as the practical minimum contribution that Member States should be expected to make to the Organization. The Committee noted that there was no technical basis for changing the floor.

52. **The Committee decided to further consider the question of the floor at future sessions in the light of guidance from the General Assembly.**

#### (b) Ceilings

53. The Committee recalled that the current methodology included a maximum assessment rate, or ceiling, of 22 per cent and a maximum assessment rate for the least developed countries, or least developed countries ceiling, of 0.010 per cent. The setting of both ceilings is a subjective decision to be taken by the General Assembly.

54. The maximum ceiling had been part of the scale methodology from the outset. The ceiling and the size of the redistribution had been decreasing over time. The total redistribution of points for the 2013-2015 scale was 5.622. Only one country has benefited from these points.

55. For the 1983-1985, 1986-1988 and 1989-1991 scales, the General Assembly had decided that there would be no increase in the rates of the least developed countries. Since 1992, the ceiling rate for least developed countries had been 0.010 per cent. The least developed countries ceiling had applied to 7 of the 49 least developed countries for the 2013-2015 scale of assessments. The total redistribution of points for the least developed countries ceiling for the 2013-2015 scale was 0.106.

56. **The Committee decided to further consider the question of the ceilings at future sessions in the light of guidance from the General Assembly.**

## B. Other suggestions and other possible elements for the scale methodology

### 1. Large scale-to-scale changes in rates of assessment and discontinuity

57. The Committee recalled that the General Assembly, in its resolution 61/237, had noted that the application of the current methodology had led to substantial increases in the rate of assessment of some Member States, including developing countries.

58. A similar concern had led to the addition of a scheme of limits to the scale methodology in the 1986-1998 scales, which had restricted large scale-to-scale increases and decreases faced by Member States. The General Assembly had subsequently decided to phase it out over two scale periods. Since the calculation of the 2001-2003 scale, the effects of the scheme of limits had been fully eliminated.

59. The Committee noted that in a dynamic world, changes to the rates of assessment were inevitable. Since the scale was a 100 per cent scale, as the shares of some Member States went up or down, the shares of others would decrease or increase in inverse proportion, regardless of whether their GNI had increased or decreased in absolute terms. Further, any Member State that moved up from the floor would inevitably experience a minimum increase of 100 per cent.

60. The Committee recalled that voluntary mitigation had been used in the past to alleviate scale increases. In the 2001-2003, 2004-2006 and 2007-2009 scales, the General Assembly had agreed to the mitigation of some increases through voluntary burden shifting and to voluntary increases in the rate of assessment of some Member States.

61. The Committee noted that possible approaches for mitigating large scale-to-scale changes might include introducing a maximum increase of 100 per cent to a Member State's assessment rate or spreading out large increases over the duration of the scale period so that a Member State could transition to the new rate gradually over the three years. Other options focused on the share in world GNI, such as the introduction of a limit on the gap between each Member State's assessment rate and its share in world GNI, or limiting the increase to the GNI share increase.

62. Some members noted that the problem of discontinuity could be significantly addressed by altering the methodology related to the low per capita income adjustment. The Committee noted that the magnitude of this discontinuity in the current scale was approximately 13 per cent. Prior to 1979, the amount of that adjustment was distributed pro rata to all Member States, including those below the low per capita income adjustment threshold. As a result, all Member States, except those affected by the ceilings or the floor, shared the burden of the adjustment. That approach smoothed the effect of the adjustment on those moving up through the threshold. It could also result, however, in countries slightly below the threshold becoming net absorbers. Owing to concern about this effect, the adjustment has been redistributed since 1979 only to Member States that are above the threshold. The options to address the problem of discontinuity included: (a) distributing the percentage points arising from the low per capita income adjustment to all Member States; (b) allowing "indirect redistribution" similar to the debt-burden adjustment, whereby the GNI of countries below the threshold would be reduced to the extent of the low per capita income adjustment, while countries above the threshold would not have to explicitly absorb the relief given to the countries below the threshold; and (c) creating a neutral zone above and below the low per capita income adjustment threshold, whereby Member States falling into that neutral zone would neither benefit from nor absorb relief arising from the application of the low per capita income adjustment.

63. Some members expressed reservations about introducing such proposals to the scale methodology, as any new measure could become a source of additional discontinuity. They pointed out that in many cases, changes in rates of assessment were the result of real growth and changes in the capacity to pay. Introducing limits, such as a scheme of limits, would constitute a variance from the principle of capacity to pay and had failed in the past, creating complex and compounding distortions that were difficult to remove. Those members stressed that no such limits should be introduced.

64. **The Committee decided to further study measures to deal with large scale-to-scale changes and discontinuity in the light of guidance from the General Assembly.**

### 2. Annual recalculation

65. The Committee recalled that it had first considered the proposal for automatic annual recalculation of the scale in 1997. Annual recalculation is the updating of relative income shares before the second and third years of each scale period, involving the replacement of data for the first year of the base period(s) with newly available data for the year following the initial base period(s). In the case of the scale for the 2013-2015 period, for example, for which the base periods were 2005-2010 and 2008-2010, data for 2011 would replace both data for 2005 in the six-year base period and for 2008 in the three-year base period. Based on these recalculated income shares and the established scale methodology, the scale for 2014 would be adjusted accordingly. Similarly, for 2015, the scale would be adjusted by replacing data for 2006 and data for 2009 in the six-year base period and three-year base period with data for 2012.

66. The Committee noted that annual recalculation was technically possible. However, members had different views, mainly about its practical implementation and whether its benefits outweighed its potential drawbacks.

67. In revisiting this issue, some members expressed the view that annual recalculation would reflect a better measure of capacity to pay since the scale would be recalculated annually based on the most up-to-date data available. Those members referred to the problems encountered in the provision of data and noted that annual recalculation would allow for newly available statistical data to be taken into account in the scale of assessments, including data from more recent years, data revisions to past years and the submission of extra information from individual Member States. Annual recalculation would also help to address discontinuity and would smooth out large scale-to-scale increases. Those members also noted that annual recalculation could be implemented under a "moving scale", which would be based on approved scale methodology fixed for three years, with scale rates to be recalculated annually on the basis of updated statistical data.

68. Other members did not support the idea of annual recalculation. They supported the maintenance of current arrangements, which are reflected in rule 160 of the rules of procedure of the General Assembly, to the effect that the scale of assessments, once fixed by the Assembly, should not be subject to a general revision for at least three years unless it was clear that there had been substantial changes in relative capacity to pay. Those members expressed the view that annual recalculation would require annual Assembly approval of the scale of assessments. They also considered that it would make the annual assessments of Member States less stable and predictable and could affect international organizations that follow the United Nations scale of assessments. They also noted that additional costs might arise, depending on the length of the Committee's annual session and the required arrangements for servicing the Committee and the Assembly.

69. The main potential benefits and drawbacks of annual recalculation are outlined below.

| *Benefits* | *Drawbacks* |
|---|---|
| Better approximation of the current capacity of Member States to pay, as each year the scale would be based on the most up-to-date data available | Annual assessments of Member States could be less stable and predictable, and the formulation of national budgets more complicated |
| Ensures that assessments always use data from two years earlier (that is, t-2) and revisions to GNI estimates are fully incorporated | Peacekeeping assessments would be issued only to the end of the calendar year (that is, for a maximum of six months); consequential impact on the Organization's short-term cash flow; administrative consequences (such as additional assessments and reports) |
| May help in some cases to address the issue of large scale-to-scale increases by smoothing out adjustments annually over the three-year period | May pose problems for some international organizations following the United Nations scale of assessments |

| *Benefits* | *Drawbacks* |
|---|---|
| Updated scale of assessments could take into account any newly available statistical information (not available when the scale was reviewed) | Implications would depend, in part, upon such decisions as the length of the Committee's annual session, the degree of delegation to the Committee, and other work modalities, besides the possible need to amend rule 160 of the rules of procedure of the General Assembly |

70. **The Committee decided to further study the question of annual recalculation at future sessions in the light of guidance from the General Assembly.**

# Chapter IV
# Multi-year payment plans

71. In paragraph 1 of its resolution 57/4 B, the General Assembly endorsed the conclusions and recommendations of the Committee concerning multi-year payment plans (see also A/57/11, paras. 17-23), and in its resolution 67/238, the Assembly reaffirmed that endorsement.

72. In considering the matter, the Committee had before it the report of the Secretary-General on multi-year payment plans (A/69/70), prepared pursuant to the recommendations of the Committee. It was also provided with updated information on the status of the plans. No new multi-year payment plans had been submitted.

73. The Committee recalled that a number of Member States had successfully implemented multi-year plans in the past. Given this successful experience, the Committee continued to believe that the system of multi-year payment plans remained a viable means available to assist Member States in reducing their unpaid assessed contributions and demonstrating their commitment to meeting their financial obligations to the United Nations.

74. The Committee also recalled its recommendation that the General Assembly encourage other Member States in arrears, for the purpose of the application of Article 19 of the Charter of the United Nations, to consider submitting multi-year payment plans. In this context, some members emphasized that regular payments equal to at least the annual assessment were an important initial step in addressing the situation of Member States in arrears.

## A. Status of payment plans

75. The table under paragraph 14 of the report of the Secretary-General on multi-year payment plans (A/69/70) summarizes the status of the remaining payment plan covered as at 31 December 2013. This is the multi-year payment plan submitted by Sao Tome and Principe in 2002 (first plan). The Committee was also provided with updated information relating to the plan as at 20 June 2014.

**Status of the payment plan as at 20 June 2014**

(United States dollars)

| | *Payment plan* | *Assessments as at 31 December* | *Payments/credits* | *Outstanding as at 31 December* |
|---|---|---|---|---|
| **Sao Tome and Principe** | | | | |
| 1999 | | | | 570 783 |
| 2000 | | 13 543 | 48 | 584 278 |
| 2001 | | 14 254 | 157 | 598 375 |
| 2002 | 27 237 | 15 723 | 29 146 | 584 952 |
| 2003 | 42 237 | 17 124 | 929 | 601 147 |
| 2004 | 59 237 | 20 932 | 1 559 | 620 520 |
| 2005 | 74 237 | 24 264 | 202 | 644 582 |
| 2006 | 89 237 | 23 024 | 453 | 667 153 |

| | *Payment plan* | *Assessments as at 31 December* | *Payments credits* | *Outstanding as at 31 December* |
|---|---|---|---|---|
| 2007 | 114 237 | 32 524 | 810 | 698 867 |
| 2008 | 134 237 | 30 943 | 473 | 729 337 |
| 2009 | 153 752 | 35 400 | 682 | 764 055 |
| 2010 | | 35 548 | 356 | 799 247 |
| 2011 | | 37 034 | 506 | 835 775 |
| 2012 | | 29 713 | 2 193 | 863 295 |
| 2013 | | 37 248 | 481 | 900 062 |
| 2014 | | 27 347 | 51 634 | 875 775 |

76. The Committee welcomed the payment made by Sao Tome and Principe in May 2014 and encouraged the country to review the plan and revise its terms, when possible.

## B. Conclusions and recommendations

77. **The Committee noted that no new multi-year payment plans had been submitted. It recalled the past experience of the successful implementation of plans by several Member States and recommended that the General Assembly encourage those Member States in arrears under Article 19 of the Charter of the United Nations to consider submitting multi-year payment plans.**

# Chapter V

## Application of Article 19 of the Charter of the United Nations

78. The Committee recalled its general mandate, under rule 160 of the rules of procedure of the General Assembly, to advise the Assembly on the action to be taken with regard to the application of Article 19 of the Charter. It also recalled Assembly resolution 54/237 C concerning procedures for the consideration of requests for exemption under Article 19.

79. The Committee recalled that the General Assembly, in its resolution 54/237 C, had decided that requests for exemption under Article 19 must be submitted by Member States to the President of the Assembly at least two weeks before the session of the Committee so as to ensure a complete review of the requests. In addition, the Assembly had urged all Member States in arrears requesting exemption under Article 19 to provide the fullest possible supporting information, including information on economic aggregates, government revenues and expenditure, foreign exchange resources, indebtedness, difficulties in meeting domestic or international financial obligations and any other information that might support the claim that failure to make necessary payments had been attributable to conditions beyond the control of the Member State concerned. Most recently, the Assembly, in its resolution 68/5, had once again urged all Member States requesting exemption to submit as much information as possible, in advance of the deadline specified in resolution 54/237 C.

80. The Committee noted that five requests for exemption under Article 19 had been received, the same number as had been considered in 2013.

**Requests for exemption under Article 19 of the Charter**

| *Member State* | *Number of years consecutively falling under Article 19* | *Number of years consecutively requesting an exemption under Article 19* |
|---|---|---|
| Central African Republic | 27 | 12 |
| Comoros | 22 | 20 |
| Guinea-Bissau | 22 | 17 |
| Sao Tome and Principe | 27 | 13 |
| Somalia | 22 | 13 |

81. In reviewing the five requests, the Committee recognized the continued difficult situation of the Member States concerned. It acknowledged the great efforts that had been made in some cases to make some payment of contributions over the years.

82. **The Committee encouraged the Member States concerned to address the growth in arrears by making annual payments exceeding current assessments in order to avoid further accumulation of debt. It also encouraged the Member States to consider the submission of a multi-year payment plan and to consult with the Secretariat as may be required.**

## A. Central African Republic

83. The Committee had before it a letter dated 25 April 2014 from the President of the General Assembly addressed to the Chair of the Committee on Contributions, transmitting a letter dated 24 April 2014 from the Chargé d'affaires a.i. of the Permanent Mission of the Central African Republic to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the representative of the Central African Republic.

84. In its written and oral presentations, the Central African Republic indicated that, since December 2012 and owing to subsequent developments in 2013, the country had been facing a serious crisis. The humanitarian situation, already difficult, had deteriorated. Gross violations of human rights had been committed. Thousands of people were estimated to be at risk of severe food insecurity. Rampant insecurity seriously threatened the stability of the country. In addition to the current situation, the consequences of the preceding years of crisis remained part of the social and economic life of the country. The economy was still vulnerable to various domestic and external shocks and the capacity of the State to meet its debt payments remained weak. As a result, the levels of foreign investment remained low and the country was still reliant on aid. The Central African Republic was committed to paying its contributions to the United Nations, was making efforts to reduce its unpaid assessed contributions and was keeping the issue of multi-year payment plans under continuous consideration. As the country's situation normalized, it would establish such a plan as a matter of priority.

85. The Committee was provided by the Secretariat with information concerning the situation in the Central African Republic. Over the past two decades, the country had faced political, economic, social and armed conflicts that had weakened public and private institutions and led to the destruction of economic and social infrastructure, as well as a general deterioration of living standards of the population. In the past year, there had been a dramatic worsening of the situation on the ground. Attacks in December 2013 had led to a significant deterioration in the security situation and had sparked a cycle of reprisals among civilians and clashes among forces throughout the country. Thousands of people had been killed. Those developments had led to a grave deterioration of the human rights situation, resulting in a serious protection crisis, with civilians being targeted by armed groups. The country faced a severe humanitarian crisis characterized by massive population movements and countrywide violence among previously peaceful communities. The negative impact on the capacity to move freely had effectively paralysed the economy. That had been compounded by the decrease in domestic agricultural production, with the insecurity preventing people from tending crops and livestock. Humanitarian operations had also been affected by security-related issues. More than 2.5 million people of the total population of 4.6 million depended on humanitarian assistance to meet their basic needs.

86. The Committee noted that the accumulated contributions due from the Central African Republic amounted to $305,336 and that a minimum payment of $205,523 was required under Article 19. The most recent payment from the Central African Republic had been received in October 2012. The Committee recognized the great efforts made by the Central African Republic to reduce its arrears. The most recent payment, of $160,000, had been equivalent to more than six times its annual contribution to the regular budget. The Committee encouraged those efforts and welcomed the indication from the Central African Republic that it continued to make efforts to reduce its unpaid contributions and that a multi-year payment plan

would be established as a matter of priority as soon as the country's situation had normalized.

87. **The Committee concluded that the failure of the Central African Republic to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that the Central African Republic be permitted to vote until the end of the sixty-ninth session of the General Assembly.**

## B. Comoros

88. The Committee had before it a letter dated 23 April 2014 from the President of the General Assembly addressed to the Chair of the Committee on Contributions, transmitting a letter dated 22 April 2014 from the Deputy Permanent Representative of the Comoros to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the representative of the Comoros.

89. In its written and oral presentations, the Comoros indicated that, just as most of the least developed countries, it had been severely affected by the economic, financial and food crisis of the past six years. The efforts made by the Government to mitigate the devastating economic, social and environmental impact of the crisis notwithstanding, the serious economic and financial difficulties faced by the country were affecting the living conditions of its people. The slump in its exports (vanilla, cloves and ylang-ylang) and the decline in diaspora remittances, which were a source of foreign currencies for the country, had affected efforts towards economic and social recovery. Furthermore, the Comoros remained vulnerable to natural hazards, including tidal waves, tropical storms and cyclones. Such natural disasters represented a serious threat to local communities, infrastructure and economic activities. On 29 March 2014, in Anjouan, a landslide had caused the displacement of 3,000 people. The policy of revitalizing tourism, the reorganization of the civil service and the recent attainment of the completion point under the Heavily Indebted Poor Countries Initiative had all been encouraging signs. The Comoros was keeping the issue of a multi-year payment plan under continuous consideration and, when the country's situation had normalized, the Government would make it a priority. The most recent contribution, of $20,000, had been paid in September 2013 and the Government intended to make a similar payment in September 2014.

90. The Committee was provided by the Secretariat with information concerning the situation in the Comoros. Since the 2010 elections, the Comoros had enjoyed a period of relative stability and the risk of a relapse into outright conflict appeared unlikely. The recent political and democratic progress notwithstanding, however, the situation in the Comoros remained precarious. Inter-island tensions relating to the distribution of power and resources were expected to continue, although their severity might vary from time to time. The country was prone to natural disasters (flash floods, cyclones, volcanic eruptions and earthquakes) and outbreaks of disease. Following the debt relief provided under the Heavily Indebted Poor Countries Initiative in December 2012, the Government was working to step up investment and implement reforms, in line with the extended credit facility of IMF. Public finances were characterized by a chronic budget deficit. Government expenditure consisted mainly of staff salaries and exceeded the ability of the Government to mobilize resources. Consequently, the country was dependent on official development assistance and government debt. The effort that the Government was making to improve its socioeconomic development was, however,

bearing some fruit, in particular in the fields of health and education. The Comoros was at a transitional stage of development.

91. The Committee noted that the accumulated contributions due from the Comoros amounted to $952,723 and that a minimum payment of $852,910 was required under Article 19. The most recent payment, of $20,000, from the Comoros had been received in September 2013. A payment of $14,015 had also been received in September 2012. The Committee welcomed those regular payments, which demonstrated the commitment of the Comoros to reducing its arrears. The Committee noted that annual payments should exceed the level of annual assessments in order to prevent, to the extent possible, further accumulation of contributions payable. The Committee welcomed the indication that the Comoros would make another annual payment in September 2014 and would keep the issue of a multi-year payment plan under consideration, with a view to establishing such a plan as a matter of priority when the country's situation normalized.

92. **The Committee concluded that the failure of the Comoros to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that the Comoros be permitted to vote until the end of the sixty-ninth session of the General Assembly.**

## C. Guinea-Bissau

93. The Committee had before it a letter dated 13 May 2014 from the President of the General Assembly addressed to the Chair of the Committee on Contributions transmitting a letter dated 6 May 2014 from the Permanent Representative of Guinea-Bissau to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the Permanent Representative.

94. In its written and oral presentation, Guinea-Bissau indicated that in past years, all its efforts notwithstanding, the country had not been able to fulfil the obligation to pay its contributions owing to the high level of political instability, which had negatively affected its socioeconomic situation. Since the coup d'état of 12 April 2012, the suspension of international financial support from its main partners had worsened the already depleted economy, leaving civil servants without a salary for many months and bringing social tension and more suffering to the population at all levels and in all spheres of society. On 13 April 2014, after two years of transition, presidential and legislative democratic elections had been held simultaneously. The elections, which had had the largest turnout ever, had been conducted peacefully, showing that the people of Guinea-Bissau held hope for a new beginning to consolidate peace and bring back the trust of partners to help to achieve sustainable development in the country. The second round of elections had been held on 18 May 2014, after which the new Government was to take office, ending a long period of transition. The newly elected Government would begin the work of rebuilding the country and strengthening its economy. The fulfilment of the country's obligation to the Organization, even by means of a multi-year payment plan, would be one of the priorities of the new authorities in the effort to reduce its debt to the Organization.

95. The Committee was provided by the Secretariat with information concerning the situation in Guinea-Bissau. The country had made significant progress in the previous year. Following the successful conduct of the presidential and legislative elections in April and May 2014, a new Government was scheduled to be inaugurated within the next few weeks, and constitutional order had been almost

fully restored in the country. While those positive achievements were very encouraging, more remained to be done to ensure post-election stability. Sustained efforts were required in the coming months to assist the authorities in addressing the most pressing priorities, such as payment of the salaries of civil servants and provision of basic health and educational services. International assistance was also necessary to ensure that the new authorities achieved their long-term development objectives through the rebuilding of the State and the implementation of key reforms. Those efforts would include reforms of the defence, security and justice institutions to enable them to fulfil their constitutionally defined roles and maintain constitutional order. While Guinea-Bissau was not facing any major acute humanitarian crises, after nearly a decade of conflict and political instability, the country remained fragile and faced major development challenges. The medium-term growth prospects for economic and social development depended on the sociopolitical evolution in the country, in particular the stabilization of the political environment and an increase in support from traditional development partners.

96. The Committee noted that the accumulated contributions due from Guinea-Bissau amounted to $643,395 and that a minimum payment of $543,582 was required under Article 19. The most recent payment, of $99,950, from Guinea-Bissau had been received in September 2009. The Committee expressed its appreciation for the past efforts of Guinea-Bissau to address its arrears and encouraged it to resume payments in order to gradually reduce the country's arrears and to consider submitting a multi-year payment plan.

97. **The Committee concluded that the failure of Guinea-Bissau to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Guinea-Bissau be permitted to vote until the end of the sixty-ninth session of the General Assembly.**

## D. Sao Tome and Principe

98. The Committee had before it a letter dated 9 May 2014 from the President of the General Assembly addressed to the Chair of the Committee on Contributions transmitting a letter dated 8 May 2014 from the Permanent Representative of Sao Tome and Principe to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the Permanent Representative.

99. In its written and oral presentations, Sao Tome and Principe indicated that, all of its efforts notwithstanding, it had found it impossible to meet its financial responsibilities to the Organization owing to the negative effect on its capacity to pay of continuous economic constraints over the past few years and increasing poverty. The country had a high rate of unemployment, which stood at 13.5 per cent of the total labour force in 2014. Sao Tome and Principe was not an oil or gas producer, despite its geographical location. To date, that sector had not made a substantial contribution to overall growth in 2014 and was not anticipated to do so in 2015. The small size of the country, its insularity and its strong dependence on external aid were some of the factors that had made the economy highly vulnerable. Some improvements in microeconomic performance over the past six years notwithstanding, Sao Tome and Principe remained one of the poorest countries in the world, as stated in various reports published by the World Bank and IMF. Sao Tome and Principe had joined a programme of the World Bank and IMF aimed at alleviating poverty, the Poverty Reduction and Growth Facility. A new extended

credit facility had been approved in mid-2012 for the following three years. The Government would reconsider the terms of its multi-year payment plan and would make all necessary payments to the Organization as soon as the economic situation improved.

100. The Committee was provided by the Secretariat with information concerning the situation in Sao Tome and Principe. The country remained politically and economically fragile. Major challenges included the provision of a good legal framework and strengthening of the rule of law, increased transparency and accountability of state institutions and combating of corruption. As a country heavily dependent on international assistance, one key challenge pertained to the need for the sustained and continued mobilization of additional resources from development partners to support the country in implementing its poverty reduction strategy. Sao Tome and Principe was a small island State, prone to natural disasters such as floods and landslides. Despite recent achievements on the human development front, especially in the education and health sectors, the country remained highly vulnerable to unpredictable shocks, such as food shortages, climate change and the impact of the recent global financial crisis. Levels of chronic malnutrition and infant mortality were high. The country had a narrow production and export base. The oil sector was expected to play a key role in the economy in the years ahead. The Government had made significant progress in reforming the management of public finances. With the support of its development partners, Sao Tome and Principe had managed gradually to adopt more prudent fiscal and monetary policies that were promoting economic growth and debt sustainability.

101. The Committee noted that the accumulated contributions due from Sao Tome and Principe amounted to $875,775 and that a minimum payment of $775,963 was required under Article 19. The most recent payment, of $51,634, from Sao Tome and Principe had been received in May 2014. That had been the first contribution received from the country since October 2002. The Committee welcomed the recent payment, which demonstrated the renewed commitment of Sao Tome and Principe to addressing its arrears. The Committee recognized the commitment made by Sao Tome and Principe in submitting a multi-year payment plan, and welcomed the indication that it would review the plan and revise the terms as soon as possible.

102. **The Committee concluded that the failure of Sao Tome and Principe to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Sao Tome and Principe be permitted to vote until the end of the sixty-ninth session of the General Assembly.**

## E. Somalia

103. The Committee had before it a letter dated 22 April 2014 from the President of the General Assembly addressed to the Chair of the Committee on Contributions transmitting a letter dated 21 April 2014 from the Permanent Representative of Somalia to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the Permanent Representative.

104. In its written and oral presentations, Somalia indicated that its capacity to pay had been affected by its difficult internal situation over the past few years and the grave economic and financial difficulties affecting the living conditions of its people. Since the 1990s, Somalia had endured serious internal conflict, which had created financial crises and given rise to grave economic difficulties. While modest

progress had been made since 2008, the Government faced tremendous challenges: weak transitional federal institutions and structures and a lack of resources sufficient for the Government to be fully responsible for the security of its citizens and to deal with the acute humanitarian and economic crisis. Of the entire population, 2.4 million Somalis, or 32 per cent, were in need of humanitarian assistance and livelihood support as a result of the continuing conflict, drought and food insecurity. The combination of increasing conflict and drought had led to an increase in population movement and displacement. The nutrition situation had been classified as critical or very critical in most areas of southern Somalia owing to poor access to food. Morbidity rates were high because of the low prevalence of health interventions. The Government would make all necessary payments as soon as the financial and security situation of the country changed for the better. Notably, there had recently been very encouraging signs of progress, and it was hoped that the country could begin to take steps in the coming year towards meeting its financial obligations to the United Nations.

105. The Committee was provided by the Secretariat with information concerning the situation in Somalia. The country had been in a state of protracted armed conflict for the past 25 years. Since 2012, major political and security developments had taken place, offering greater possibilities for peace, including the formation of a new federal Government. The Government was approaching the midpoint of its four-year term. Some political progress and improvement in food security since the 2011 famine notwithstanding, the humanitarian situation remained dire and Somalia was currently at risk of experiencing another famine. Although there were variations in conditions among regions, Somalia remained one of the poorest countries in the world. The Government continued to work to improve its revenue collection systems through the registration of businesses, empowerment of the Central Bank, tax awareness campaigns and consolidation of tax collection bodies, among other measures. Its public institutions continued to be highly dependent on external assistance. The challenges faced by the Government in strengthening its public sector institutions were enormous. The long civil war had destroyed physical infrastructure, equipment and the institutional memory of most government agencies and ministries.

106. The Committee noted that the accumulated contributions due from Somalia amounted to $1,355,739 and that a minimum payment of $1,255,926 was required under Article 19. The most recent payment from Somalia had been received in October 1989. The Committee encouraged Somalia to consider the submission of a multi-year payment plan once the country's situation had normalized.

107. **The Committee concluded that the failure of Somalia to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Somalia be permitted to vote until the end of the sixty-ninth session of the General Assembly.**

# Chapter VI
# Other matters

## A. Collection of contributions

108. The Committee noted that, at the conclusion of its current session, on 20 June 2014, only one Member State, Yemen, was in arrears in the payment of its assessed contributions to the United Nations under the terms of Article 19 of the Charter and had no vote in the General Assembly. In addition, the following five Member States were in arrears in the payment of their assessed contributions under the terms of Article 19 but had been permitted to vote in the Assembly until the end of the sixty-eighth session, pursuant to Assembly resolution 68/5: Central African Republic, Comoros, Guinea-Bissau, Sao Tome and Principe and Somalia. **The Committee decided to authorize its Chair to issue an addendum to the present report, if necessary.**

109. The Committee also noted that, as at 31 May 2014, a total of $2.6 billion was owed to the Organization for the regular budget, peacekeeping operations, the international tribunals and the capital master plan. That amount reflected a slight increase compared with the amounts of $2.4 billion and $2.5 billion outstanding as at 31 May 2013 and 31 May 2012, respectively.

## B. Payment of contributions in currencies other than the United States dollar

110. Under the provisions of paragraph 16 (a) of its resolution 67/238, the General Assembly authorized the Secretary-General to accept, at his discretion and after consultation with the Chair of the Committee on Contributions, a portion of the contributions of Member States for the calendar years 2013, 2014 and 2015 in currencies other than the United States dollar.

111. The Committee noted that, in 2013, the Secretary-General had accepted the equivalent of $3,556,449.61 from Cyprus, Ethiopia, Morocco and the Sudan in non-United States dollar currencies acceptable to the Organization.

## C. Organization of the Committee's work

112. The Committee wished to record its appreciation for the professionalism and the substantive support for its work performed by the Statistics Division and the secretariat of the Committee. The Committee welcomed improvements made to the website of the Committee on Contributions (www.un.org/en/ga/contributions/index.shtml) and, in particular, the transparency that had resulted from the improved content and presentation of useful information.

113. The Committee also expressed its appreciation for the substantive support provided by the Department of Peacekeeping Operations, the Department of Political Affairs, the Office for the Coordination of Humanitarian Affairs and the United Nations Development Programme in its consideration of requests for exemptions under Article 19 of the Charter.

## D. Working methods of the Committee

114. The Committee reviewed its working methods, and members expressed general satisfaction with the working methods currently in place. They noted that the documentation required for the work of the Committee had been made available in a timely manner for review in advance of the session. They also expressed support for the increased availability of online documentation. The Committee decided to continue to review its working methods at future sessions.

## E. Date of the next session

115. **The Committee decided to hold its seventy-fifth session in New York from 1 to 26 June 2015.**

# Annex I

## Outline of the methodology used for the preparation of the United Nations scale of assessments for the period 2013-2015

1. The current scale of assessments was based on the arithmetic average of results obtained using national income data for base periods of three and six years for the periods 2008-2010 and 2005-2010. The methodology used in the preparation of each set of results took as its starting point the gross national income (GNI) of the States Members of the United Nations during the respective base periods. This information was provided by the Statistics Division of the Department of Economic and Social Affairs and was based on data provided by Member States in response to the annual national accounts questionnaire. Since figures had to be provided for all Member States for all years of the possible statistical periods, when data were not available from the questionnaire the Statistics Division prepared estimates using other available sources, including the regional commissions, other regional organizations, the World Bank, the International Monetary Fund (IMF) and private sources.

2. The GNI data for each year of the base periods were then converted to a common currency, the United States dollar, in most cases using market exchange rates (MERs). For this purpose, market exchange rates were taken to be the annual average exchange rates between the national currencies and the United States dollar as published in the IMF *International Financial Statistics* or its economic information system. Those sources included three types of rates which, for the purposes of preparing the scale of assessments, were referred to as MERs:

(a) Market rates, determined largely by market forces;

(b) Official rates, determined by Government authorities;

(c) Principal rates, for countries maintaining multiple exchange-rate arrangements.

For States that were not members of IMF, where MERs were not available, United Nations operational rates of exchange were used.

3. As part of its review process, the Committee on Contributions considered whether MERs resulted in excessive fluctuations or distortions in the income of particular Member States, for possible replacement with price-adjusted rates of exchange (PAREs) or other appropriate conversion rates. The PARE methodology was developed by the Statistics Division as a means of adjusting the conversion rates into United States dollars taking into account only relative price changes in the economies of the respective Member States and the United States, which is reflected in the MER Valuation Index (MVI). The MVIs of the Member States are considered relative to the respective value of the entire membership of the United Nations and in that way takes into account the relative currency movement of all Member States relative to the United States dollar. PAREs are derived by adjusting the MER with the ratio of the MVI of the entire membership of the Organization divided by the MVI of the Member State, limited to a range of 20 per cent above or below the MVI of the entire membership.

4. An average of the annual GNI figures in United States dollars for the base periods was then aggregated with the corresponding figures for other Member States

as the first step in the machine scales used for the scale of assessments for the period 2013-2015.

**Summary of step 1**

Annual GNI figures in national currency were converted to United States dollars using the annual average conversion rate (MER or other rate selected by the Committee). The average of these figures was calculated for the base period (three or six years). Thus:

$[(GNI_{year\ 1}/\text{conversion rate}_{year\ 1}) + \ldots\ldots + (GNI_{year\ 6}/\text{conversion rate}_{year\ 6})]/6$ = average GNI, where 6 is the length of the base period

These average GNI figures were summed and used to calculate shares of GNI. A similar exercise was carried out for the three-year base period.

5. The next step in the scale methodology was the application of the debt-burden adjustment in each machine scale. In its resolution 55/5 B, the General Assembly decided to base this adjustment on the approach employed in the scale of assessments for the period 1995-1997. Under this approach, the debt-burden adjustment is the average of 12.5 per cent of total external debt for each year of the period (what has become known as the debt-stock method), based on an assumed repayment of external debt within eight years. Data for this adjustment came from the World Bank database on external debt, which included countries with a per capita income of up to $12,275 (using the World Bank Atlas conversion rates). The amount of the debt-burden adjustment was deducted from the GNI of those countries affected. The adjustment therefore increased not the absolute but rather the proportionate GNI of the Member States that either did not benefit from it or whose relative adjustment was lower than the amount of the total adjustment as a percentage of total GNI.

**Summary of step 2**

The debt-burden adjustment (DBA) for each base period was deducted to derive debt-adjusted GNI ($GNI_{da}$). This involved deducting an average of 12.5 per cent of the total debt stock for each year of the base period. Thus:

Average GNI - DBA = $GNI_{da}$

Total $GNI_{da}$ = total GNI - total DBA

6. The next step was the application of the low per capita income adjustment in each machine scale. This involved the calculation of the average per capita GNI during each of the base periods for the membership as a whole and the average debt-adjusted per capita GNI for each Member State for each base period. The overall average figures for the current scale were $8,956 for the three-year base period and $8,338 for the six-year base period, and these were fixed as the starting points, or thresholds, for the respective adjustments. The GNI of each country whose average debt-adjusted per capita GNI was below the threshold was reduced by 80 per cent of the percentage by which its average debt-adjusted per capita GNI was below the threshold.

7. For each machine scale, the total amount of the low per capita income adjustment was reallocated to those countries above the threshold, other than the Member State affected by the maximum assessment rate or ceiling, in proportion to

their relative shares of the total debt-adjusted GNI of that group. For illustrative purposes, a track 2 calculation was undertaken in which the ceiling country was not excluded from the allocation of the adjustment. This permitted the machine scales considered by the Committee to indicate what the relative assessment rates of Member States would be if the ceiling were not applied.

**Summary of step 3**

The average per capita GNI for each base period was calculated. This was used as the threshold for application of the low per capita income adjustment. Thus:

(total $GNI_{year\ 1}$ + .... + total $GNI_{year\ 6}$)/(total $population_{year\ 1}$ + .... + total $population_{year\ 6}$) = average per capita GNI for the six-year base period

A similar exercise was carried out for the three-year base period.

**Summary of step 4**

The average debt-adjusted per capita GNI for each Member State for each base period was calculated in the same manner as in step 3, using debt-adjusted GNI.

**Summary of step 5**

In each machine scale, the low per capita income adjustment was applied to those Member States whose average debt-adjusted per capita GNI was lower than the average per capita GNI (threshold). This adjustment reduced the affected Member State's average debt-adjusted GNI by the percentage that its average debt-adjusted per capita GNI was below the threshold multiplied by the gradient (80 per cent).

Example: If the average per capita GNI is $5,000 and a Member State's per capita debt-adjusted GNI is $2,000, then the low per capita income adjustment will be [1 - (2000/5000)] x 0.80 = 48 per cent, that is, 80 per cent (the gradient) of 60 per cent [1 - (2000/5000)], which is the percentage by which the Member State's debt-adjusted per capita GNI is below the threshold.

**Summary of step 6**

In each machine scale, the total dollar amount of the low per capita income adjustments was reallocated pro rata to Member States whose average debt-adjusted per capita GNI was above the threshold. In order to illustrate the outcomes with and without a ceiling scale rate, the following two alternative tracks were applied to this and subsequent steps:

**Track 1**

The total of the low per capita income adjustments was proportionately reallocated to all Member States whose average debt-adjusted per capita GNI was above the threshold, except the ceiling country. Since the ceiling country would not ultimately share in the reallocation of points arising from the low per capita income adjustment, including it in the reallocation would have the effect of having the beneficiaries of the adjustment share a part of its cost. This

would occur when the points added for the ceiling country were reallocated pro rata to all other Member States as part of the reallocation of points arising from application of the ceiling. In machine scales, the results of track 1 calculations appear in the "ceiling" column and subsequent columns, if any.

**Track 2**

The total of the low per capita income adjustments was proportionately reallocated to all Member States whose average debt-adjusted per capita GNI was above the threshold, including the ceiling country. This yielded, for illustrative purposes, scale figures that would have applied if there had not been a ceiling rate of assessment. In machine scales, the results of track 2 calculations appear in the "low per capita income", "floor" and "least developed countries adjustment" columns.

8. Following these adjustments, three sets of limits were applied to each machine scale. Those Member States whose adjusted share was less than the minimum level, or floor, of 0.001 per cent were brought up to that level. Corresponding reductions were applied pro rata to the shares of other Member States, except, under track 1, the ceiling country.

**Summary of step 7**

The minimum assessment rate, or floor (currently 0.001 per cent), was applied to those Member States whose rate at this stage is lower. Corresponding reductions were then applied pro rata to other Member States, except, under track 1, the ceiling country.

9. A maximum assessment rate of 0.01 per cent was then applied for each machine scale to those Member States on the list of the least developed countries. Increases corresponding to this least developed countries ceiling were then applied pro rata to other Member States, except, under track 1, the ceiling country.

**Summary of step 8**

Those least developed countries whose rate at this point exceeded the least developed countries ceiling (0.01 per cent) had their rate reduced to 0.01 per cent. Corresponding increases were applied pro rata to other Member States, except, under track 1, the ceiling country.

10. A maximum assessment rate, or ceiling, of 22 per cent was then applied to each machine scale. Increases corresponding to the resulting reduction for the ceiling country were then applied pro rata to other Member States. As indicated above, those increases were calculated in accordance with track 1, that is, they reflected a distribution of points from the ceiling country that did not include any points arising from the application of the low per capita income adjustment.

**Summary of step 9**

The maximum assessment rate, or ceiling, of 22 per cent was then applied. Corresponding increases were then applied pro rata to other Member States, except for those affected by the floor and the least developed countries ceiling, using the track 1 approach from step 6 above.

11. An arithmetic average of the final scale figures was then calculated for each Member State, using base periods of three and six years.

**Summary of step 10**

The results of the two machine scales, using base periods of three and six years (2008-2010 and 2005-2010), were added and divided by two.

# Annex II

## Summary of main changes between the 1968 System of National Accounts, the 1993 System of National Accounts and the 2008 System of National Accounts having an impact on the level of gross domestic product

### I. Main changes in the 1993 System of National Accounts from the 1968 System of National Accounts

#### Further specification of the production boundary for household production activities

The 1993 System of National Accounts (SNA) included all goods produced by households within the production boundary.

The 1968 SNA excluded from the production boundary the production of goods not made from primary products, the processing of primary products by those who do not produce them and the production of other goods by households who do not sell any part of them on the market.

#### Allocation of financial intermediation services indirectly measured

The 1993 SNA, in principle, recommended allocation of the consumption of financial intermediation services indirectly measured (FISIM) between users — who could be lenders as well as borrowers — treating the allocated amounts either as intermediate consumption by enterprises or as final consumption or exports.

The 1968 SNA did not recommend allocating the consumption of FISIM to users; instead it was by convention allocated to the intermediate consumption of a nominal industry.

#### Inclusion of all illegal production and other transactions

The 1993 SNA made it clear that the illegality of a productive activity or transaction is not a reason for excluding it from the System. Comprehensive coverage of illegal activities is, in principle, essential in order not to introduce errors and imbalances in the accounts (balance supply and use of goods and services in the economy).

The 1968 SNA did not give clear guidance on the coverage of illegal activities.

#### Extension of produced assets and gross fixed capital formation to include expenditure on mineral exploration

The 1993 SNA recommended treating expenditure on mineral exploration as gross fixed capital formation resulting in the creation of an intangible fixed asset under produced assets. All expenditure was recommended to be included, no matter whether the exploration was successful or not.

The 1968 SNA treated expenditure on mineral exploration as intermediate consumption.

**Extension of produced assets and gross fixed capital formation to include expenditure on computer software**

The 1993 SNA treated systems and standard applications computer software that a producer expects to use in production for more than one year as an intangible fixed asset no matter whether the computer software was purchased in the market, separately or together with the hardware, or developed in-house. It also includes databases which the enterprise expects to use for more than one year.

The 1968 SNA was interpreted as treating expenditure on software which was bought as an integral part of a major hardware purchase as gross fixed capital formation, but software purchased or developed independently was treated as intermediate consumption.

**Extension of produced assets and gross fixed capital formation to include expenditure on literary or artistic works**

The 1993 SNA included in output literary or artistic works (i.e. the writing of books and the composition of music) which are produced for sale whether they are produced by employees or by self-employed workers. Furthermore, it recognized that these outputs can contribute to production in subsequent periods and therefore treated expenditure on these outputs as gross fixed capital formation resulting in the creation of an intangible fixed asset. Consequently, fees, commissions, royalties and so on stemming from licensing others to make use of the works were treated as payments for services rendered.

The 1968 SNA treated copyrights as non-financial, non-produced intangible assets giving rise to property income.

**Extension of government gross fixed capital formation to include expenditure by the military on structures and equipment, except weapons**

The 1993 SNA treated as gross fixed capital formation all expenditure by the military on fixed assets of a kind that could be acquired by civilian users for purposes of production and that the military use in the same way; this would include airfields, docks, roads, hospitals and other buildings or structures. However, military weapons and vehicles and equipment whose sole purpose is to launch or deliver such weapons, were not to be treated as gross fixed capital formation but rather treated as intermediate consumption.

The 1968 SNA excluded from gross fixed capital formation almost all military expenditure except those on construction or alteration of family dwellings for personnel of the armed forces.

**Extension of government inventories to include all goods held in inventories**

The 1993 SNA included all goods held by the Government in inventories in line with the treatment of goods stored by market producers.

The 1968 SNA treated strategic materials, grains and other commodities of special importance to the nation as inventories; in general, stores of other commodities were not included in inventories.

**Extension of capital formation to include expenditure on valuables**

The 1993 SNA included expenditure on produced assets that are not used primarily for production or consumption, but are rather acquired and held as stores of value, as capital formation under the category "acquisitions less disposals of valuables".

The 1968 SNA treated these acquisitions less disposals in various ways. In the case of households, they were dealt with as final consumption expenditure.

**Extension of consumption of fixed capital to assets such as roads, dams and breakwaters**

The 1993 SNA recommended that consumption of fixed capital should be calculated for assets such as roads, dams and breakwaters.

The 1968 SNA suggested that consumption of fixed capital need not be calculated in respect of such assets because it was assumed that the maintenance and repair performed on them was sufficient to ensure that they had infinite service lives.

**Changes to the treatment of insurance**

In the 1993 SNA the basis of measuring the output of insurance was changed. Income from the investment of insurance technical reserves was taken into account when measuring the value of the services provided to policyholders. The income was distributed to policyholders as a property income flow and repaid to the insurance corporations as premium supplements.

The 1968 SNA did not take into account the premium supplements in measuring the output of insurance services.

## II. Main changes in the 2008 System of National Accounts from the 1993 System of National Accounts

**Definition of financial services enlarged**

The 2008 SNA enlarges the definition of financial services to give due weight to the increase in such services other than financial intermediation services, specifically financial risk management and liquidity transformation.

The 1993 SNA recognized only financial intermediation services.

**Research and development is not intermediate consumption**

The 2008 SNA recommends that the output of research and development should not be treated as intermediate consumption.

The 1993 SNA by convention treated the output of research and development as intermediate consumption.

**Refined method for calculating financial intermediation services indirectly measured**

In the 2008 SNA the method for calculating financial intermediation services indirectly measured, widely known as FISIM, was refined. The 2008 SNA calculates

the output of FISIM on loans ($V_L$) and deposits ($V_D$), using a reference rate (rr). Assuming that these loans and deposits attract interest rates of $r_L$ and $r_D$, respectively, the output of FISIM should be calculated according to the formula $(r_L - rr) V_L + (rr - r_D) V_D$.

The 2008 SNA recommends that output of FISIM should be allocated between users (lenders and borrowers) treating the allocated amount either as intermediate consumption or final consumption or exports.

The 1993 SNA calculated FISIM as the difference between property income receivable and interest payable. Excluded from property income receivable is that part which was earned using the investment of the financial corporations' own funds. It gave the choice to countries to continue using the convention to allocate the whole of FISIM to intermediate consumption of a notional industry.

**Valuation of output for own final use by households and corporations to include a return to capital**

The 2008 SNA recommends that when estimating the value of the output of goods and services produced by households and corporations for own final use, the return to capital be included as part of the sum of costs for estimating output.

The 1993 SNA did not include the return to capital in estimating the output of goods and services produced for own final use by households and corporations when these were estimated as the sum of costs.

**The asset category "computer software" modified to include databases**

The 2008 SNA recommends treating all databases holding data with a useful life of more than one year as fixed assets whether created on own account or purchased on the market.

In the 1993 SNA only "large" databases were recognized as assets.

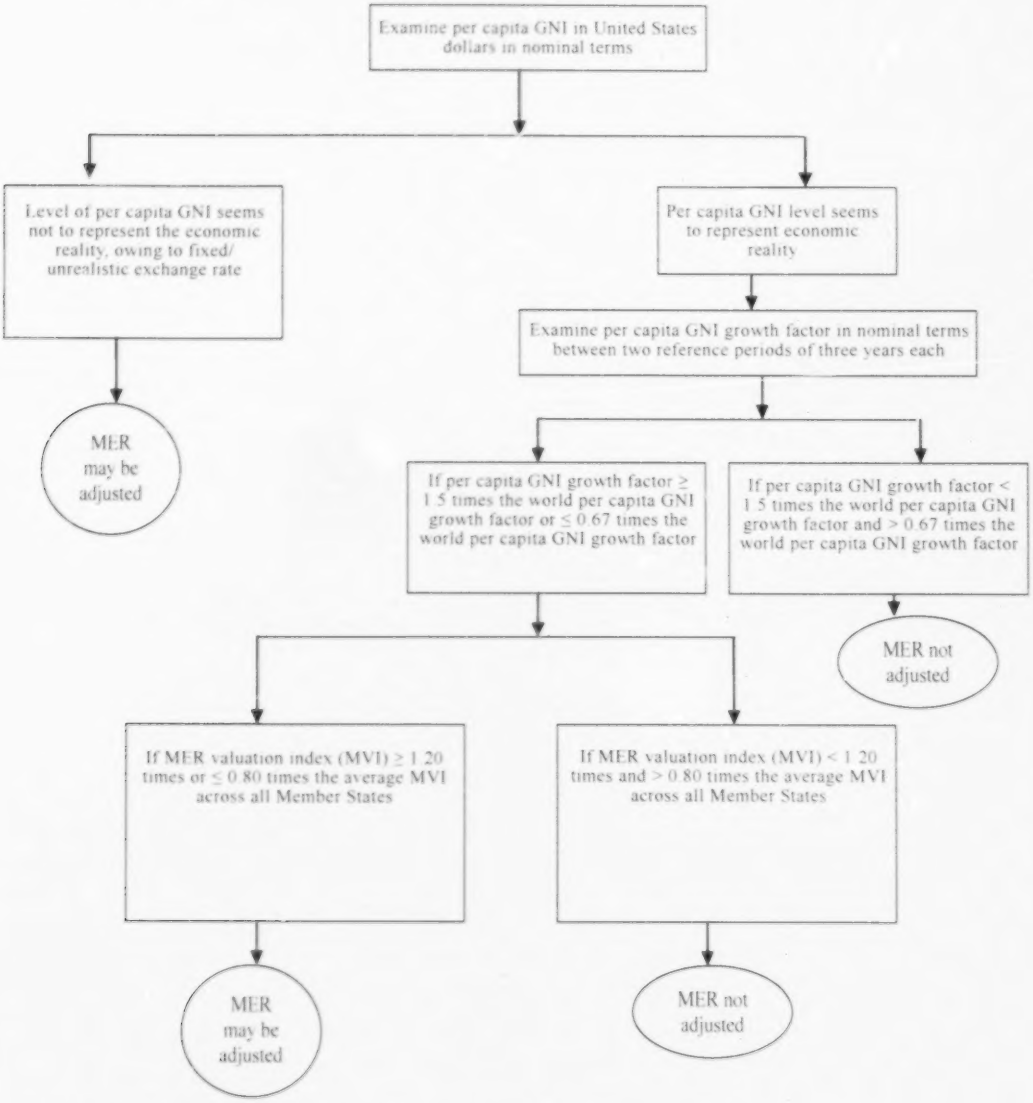
**Extension of the assets boundary and government gross capital formation to include expenditure on weapons systems**

Military weapons systems are seen to be used continuously in the production of defence services, even if their peacetime use is simply to provide deterrence. The 2008 SNA therefore recommends that military weapons systems should be classified as fixed assets. Single-use items, such as ammunition, missiles, rockets, bombs, and so on, delivered by weapons or weapons systems, are treated as military inventories.

The 1993 SNA treated as gross fixed capital formation only the expenditure by the military on fixed assets of a kind that could be used for civilian purposes of production.

# Annex III

## Systematic criteria to identify Member States for which market exchange rates may be reviewed for possible replacement


Examine per capita GNI in United States dollars in nominal terms
Level of per capita GNI seems not to represent the economic reality, owing to fixed/ unrealistic exchange rate
Per capita GNI level seems to represent economic reality
Examine per capita GNI growth factor in nominal terms between two reference periods of three years each
MER may be adjusted
If per capita GNI growth factor ≥ 1.5 times the world per capita GNI growth factor or ≤ 0.67 times the world per capita GNI growth factor
If per capita GNI growth factor < 1.5 times the world per capita GNI growth factor and > 0.67 times the world per capita GNI growth factor
MER not adjusted
If MER valuation index (MVI) ≥ 1.20 times or ≤ 0.80 times the average MVI across all Member States
If MER valuation index (MVI) < 1.20 times and > 0.80 times the average MVI across all Member States
MER may be adjusted
MER not adjusted

*Abbreviations*: GNI, gross national income; MER, market exchange rate.

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